

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter, on the Commission's own motion,)
initiating a process to address demand response)
issues for regulated electric utilities.)
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Case No. U-18369

At the May 11, 2017 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. Sally A. Talberg, Chairman
 Hon. Norman J. Saari, Commissioner
 Hon. Rachael A. Eubanks, Commissioner

ORDER

In the February 17, 2017 order in Case No. U-17990, p. 42, the Commission observed that “traditional rate setting processes are not particularly conducive to dealing with changes in [demand response (DR)] program design, spending, and timing. That is, the cost recovery approach through base rates is not sufficiently flexible to account for uncertainties that impact program spending and results.” To address this concern, the Commission determined:

[T]he Commission, on its own motion in a separate docket, intends to initiate a proceeding to evaluate potential alternatives to the regulatory review and cost recovery approaches for DR. Among other considerations, the proceeding could examine the impact of new energy laws and whether the energy waste reduction program framework or DR practices in other jurisdictions could serve as a model. Therefore, the Commission will issue a separate order, in the second quarter of 2017, to provide additional guidance for this effort.

Id.

For over a century, Michigan electric utilities have met reliability expectations through building, maintaining, and operating traditional supply side options, relying on electricity generated at central stations, which is then transmitted over long distances and delivered to end-use customers. The system was built to serve the instantaneous demand of customers, with a large reserve margin to accommodate plant outages and other contingencies. Going forward, Michigan's aging electric infrastructure will require significant advanced planning and substantial investments due to plant retirements, grid modernization, and the changing nature of the electric system, in order to maintain sufficient reliability in the future.

In contrast to supply-side options, DR is a resource that can be installed and deployed relatively quickly and that can be used as both a "bridge" resource, while new generation is constructed, and as a means of forestalling, or even eliminating, the need for some new capacity. But DR depends on substantially different factors than traditional generation options, most significantly because DR runs counter to the financial and institutional incentives that favor supply-side resources. Demand response also requires the utility to engage in marketing and customer service activities that are beyond the core utility business of the past.

Just as the utility's traditional business has been the generation and distribution of electricity, the regulatory paradigm has centered on large capital investments with the utility receiving a return of and on those investments. Thus, under traditional ratemaking, investor-owned utilities make a regulated rate of return on supply-side projects like power plants. However, the procurement of DR is largely, although not exclusively, an operating expense that is passed through in rates without an associated return. Because of the greater integration of demand side resources, including DR, both the utility and the regulatory framework may need to change.

The Commission further observes that the recent enactments of 2016 PA 341 and 2016 PA 342 (Act 341 and Act 342) add to the complexity of regulating increased DR in Michigan. Both laws contain a variety of provisions regarding DR and the roles of utilities, their regulators, and their customers.

In order to arrive at a fair and equitable regulatory treatment of DR, in light of the current regulatory model and the new legislation, the Commission directs the Commission Staff (Staff) to convene a workgroup dedicated to proposing a framework for the evaluation and cost recovery of DR investments. The Staff shall meet with interested stakeholders and issue a recommendation no later than August 31, 2017, in this docket. All stakeholders are welcome to make proposals, recommendations, or comments to the Commission by the same date.

The Commission seeks input on the following questions in order to gain a better understanding of the diverse views of a potential demand response regulatory framework and to help guide the Staff in forming their discussion topics with the workgroup.

- In what regulatory proceeding should evaluation of DR programs take place and why? In general rate cases, energy waste reduction plans, power supply cost recovery (PSCR), separate proceedings, or elsewhere?
- In what regulatory proceeding should recovery of DR program costs take place and why? In general rate cases, energy waste reduction plans, PSCR, separate proceedings, or elsewhere?
- Should reconciliation of DR program costs be conducted in a similar fashion to renewable energy or energy waste reduction cost reconciliations? If so, in what regulatory proceeding should reconciliation of DR program costs take place and why? In general rate cases, energy waste reduction plans, separate proceedings, or elsewhere?
- Are there successful regulatory models in other jurisdictions regarding DR that would be appropriate for Michigan?
- What portions of Act 341 and Act 342 related to DR require the Commission's most immediate attention?

- What portions of Act 341 and Act 342 related to DR will have the most impact on Michigan utility customers?
- How should DR be considered in energy waste reduction plans as described in Subpart 2-C of 2008 PA 295 as amended by Act 342?
- What safeguards can be built into a DR framework to ensure appropriate tracking and accounting of benefits and costs relative to megawatt savings provided by energy waste reduction programs?

The Commission encourages any interested person to submit initial written or electronic comments in response to the questions posed above. Comments must be filed with the Commission and must be received no later than 5:00 p.m. on May 31, 2017. Written comments should be sent to: Executive Secretary, Michigan Public Service Commission, P.O. Box 30221, Lansing, MI 48909. Electronic comments may be e-mailed to mpscedockets@michigan.gov. All comments should reference Case No. U -18369. All information submitted to the Commission in this matter will become public information available on the Commission's website and subject to disclosure.

THEREFORE, IT IS ORDERED that:

A. Interested parties may file written or electronic comments in response to the questions concerning demand response regulation. Comments must be received no later than 5:00 p.m. on May 31, 2017.

B. The Commission Staff shall convene a workgroup of stakeholders and other interested parties by June 20, 2017.

C. The Commission Staff shall file recommendations in this docket by 5:00 p.m. August 31, 2017.

The Commission reserves jurisdiction and may issue further orders as necessary.

MICHIGAN PUBLIC SERVICE COMMISSION

Sally A. Talberg, Chairman

Norman J. Saari, Commissioner

Rachael A. Eubanks, Commissioner

By its action of May 11, 2017.

Kavita Kale, Executive Secretary